

City of Detroit

CITY COUNCIL

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TO: John W. Prymack, Director
Greater Detroit Resource Recover Authority

FROM: Irvin Corley, Jr., Fiscal Analysis Director **14.**

DATE: April 22, 2008

RE: 2008-09 Budget Analysis

Attached is our budget analysis regarding your department's budget for the upcoming 2008-09 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing on **Thursday, April 24, 2008 at 3:00 p.m.** We would then appreciate a written response to the issues/questions at your earliest convenience subsequent to your budget hearing. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

IC:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Norman White, Chief Financial Officer
Pam Scales, Budget Department Director
Charleta McInnis, Budget Department Team Leader
Renee Short, Budget Manager II
Monica Johnson, Head Accountant-GDRRA
Kerwin Wimberly, Mayor's Office

Greater Detroit Resource Recovery Authority

FY 2008-09 Budget Analysis by the Fiscal Analysis Division

The City of Detroit/Resource Recovery Agreement specifically mandates that "the City shall budget, appropriate and requisition City funds for payment of the Tipping Fee . . . ". It further states that " the City hereby recognizes and affirms that its obligations to pay Tipping Fees . . . are full faith and credit obligation of the City . . . The City expressly and irrevocably pledges its full faith and credit for the prompt and timely payment of the Tipping Fees, and shall each year, commencing with the Fiscal Year 1985-86, appropriate from its General Fund as a first budget obligation sufficient monies to pay such Tipping Fees." (emphasis added).

As a result of the language included in this agreement, it becomes a primary budget obligation to provide for the DPW Tipping Fee. It can be argued that this obligation supersedes the City's obligation to provide police, fire, sanitation and other generally recognized City services. It appears that the only way to avoid appropriating the Tipping Fee from the General Fund is if the City is actually in a default position resulting from bankruptcy, and the fee can then be assigned directly against the Detroit property owner. This would be done by assessing directly against the residential users of the Authority's Resource Recovery facility based on a flat annual fee and against commercial users of the facility based upon individual contracts.

The GDRRA bonds were refinanced in March 1996. As a result of the refinancing, the City will save approximately \$184 million over the remaining life of the GDRRA bonds.

The Tipping Fee amount is calculated by taking the sum of the operating fee, the authority's administrative expenses, plus debt service, less the authority's revenues. The attachment presents the request and calculation in detail.

The FY 2008-09 proposed Tipping Fee represents a decrease of 44.41%. The Tipping Fee decrease is the net result of operating expenses, including debt service decreasing by 11.55% and estimated revenues increasing by 55.22%. Included in the substantial decrease in expenses is the use of \$26.0 million of bond reserves as part of the final payment for debt service. The increase in revenues includes a new revenue of \$25.0 million designated as DTE Escrow Fund.

Issues and Questions

1. Explain the \$946,851, a 28.04% increase in Authority Administrative Expense from the budget to recommended amount. This on top of the \$868,651, a 34.64% increase in Authority Administrative Expenses in the current year. This is a two years increase in Authority Administrative Expenses of \$1.8 million.

2. The original deal for the construction of the facility and the refinancing of the resource recovery facility was very complicated, and various players were involved. Provide an explanation of the current interested parties, what their interest, responsibilities, liabilities and benefits are, as well as when the agreements expire.
3. According to the Executive Budget for 2007-08 the following are targets for the Solid Waste Division of DPW: Tons of refuse collected, 320,000, Tons of bulk collected, 120,000, and Tons of yard waste collected 50,000. Will all of this be processed by GDRRA? If not, what would not be processed by GDRRA?
4. Based on the recommended budget, the City of Detroit will be paying \$48.1 million to dispose of approximately 400,000 tons of solid waste, or \$120.25 per ton. The authority disposes of approximately the same 400,000 tons of waste from private haulers and collects \$5.3 million, or \$13.25 per ton. Explain the authorities rational for this discrepancy in charges.
5. Adjusting the above cost for the City, to eliminate all of the debt service and two one time revenue items for the bond reserve and DTE energy reserve from the calculation, a rough projection for the following year show the City's cost would be \$48.1 million, less the \$25 million of debt service, or \$23.1 million. This works out to \$57.75 per ton. Even at this level the city is paying more than four times the cost of the private haulers. Please explain.
6. In the same concept, the authority has \$19.2 million in expenses for hauling and disposal. Our assumption is this is the cost to haul and dispose of the remaining ash after incineration of the solid waste. The solid waste stream is basically split 50/50, city and private haulers. However the fees from the private haulers of \$5.3 million doesn't appear to cover the ash hauling and disposal of their portion of the solid waste stream. Please clarify where our assumption may be improved, or how this is beneficial to the City.
7. Provide to City Council copies of the relevant bond covenants and Energy Purchase Agreement that allow GDRRA access to the \$26 million bond reserves, and \$25 million DTE Escrow Fund, to reduce this years tipping fee.
8. In multiple areas of the Strategic Operating Assessment Report (SOAR), the DTE Escrow Fund is designated for use for capital expenditures if it is taken prior to 2016. Please explain why the authority believes it can draw that down from the escrow fund in 2008-09 and not use the funds for capital. The SOAR report also indicates that beginning in 2016 only a portion of the escrow can be drawn down annually until 2024 the end of the energy purchase agreement. What is the authority or City offering DTE in return for concessions on the timing of withdrawals from the escrow fund or use of the fund? The following three statements are taken directly from the SOAR report.

“Condition 2: The Escrow Account is refunded to the GDRRA by DE on July 1, 2009 and the funds thus obtained are utilized to pay for RRF capital improvements. The Energy Purchase Agreement (“EPA”) must be amended in order to refund the Escrow Account to the GDRRA.”

“Another aspect of the GDRRA/City/DE/DT relationship is the Escrow Account (“the account”). The EPA established the account to secure the compliance by MWE and the GDRRA to operate the RRF and produce the quantities of electricity specified therein. Annual deposits to the account are made using the energy revenues. The value of the account has grown annually based upon the annual deposits and interest earnings. The value as of 2006 was \$21.7 million. Payments to the account will be completed in 2010. The GDRRA will receive a payback of the funds in the escrow account in portions during each of the eight (8) remaining years of the EPA from 2016 through 2024. However, receipt of the escrow payments by the GDRRA is dependent upon the GDRRA’s compliance with the terms of the EPA, including the continuation of electricity production and sale to DE through the expiration in 2024. Since the RRF operating agreement expires on July 1, 2009, compliance with the EPA would require extension of the operating agreement with MWE or another operator.

“Escrow Fund Escrow returned in 2009; used to finance improvements.
Escrow return in 2017; \$25M for RRF improvements financed.
Escrow return in 2017; \$25M for RRF improvements financed.”

9. What is the overall condition of the plant anticipated to be like when the debt is retired in a year? What was the life expectancy of the plant and equipment originally? Is the facility holding up in operation as planned? Is the facility in need of major or minor repairs? What is the estimated investment needed for repairs or improvements to extend the useful life?
10. The sale of steam represents a large portion, more than 70% of the energy revenue generated by the resource recovery operation. What is the condition of the steam distribution system? What is the number of customers (mainly downtown office building?) still using steam compared to when the plant was opened? What is the likely demand for steam or potential for steam sales past October 2009? What was the last newly constructed building that has agreed to connect to the steam line?
11. The CAFR indicates that upon the expiration of the lease in October 2009, the GDRRA has options to renew the lease or to repurchase the facility. Is the repurchase price already determined as part of the original agreement? If so what is the repurchase price? If not, what will the basis for the repurchase price be? Can the current or other owners of the facility continue to operate the facility without the approval of the authority and/or city? If so, describe the various scenarios under which that could happen. Can the owners force the renewal of the lease? If so, under what conditions?
12. The detail of the recommended budget indicates an “Unfunded Prior Year Deficit of \$7.5 million dollars. How was this deficit created? How has the

authority been able to operate with a deficit? Especially with the multiple agreements that relate to the financing and operation of the facility. When is it expected that the deficit will be eliminated? Who other than the city is responsible to eliminate the deficit?

13. Explain how the \$26 million in the 196 A & B Bond Reserve came about. Provide the breakdown in total, not by each bond issue, of the current balance in the reserve, anticipated deposits and sources including interest earnings, required debt service payments that calculated to the \$26 million anticipated available balance on June 30, 2009.
14. City Council recently passed a resolution (6-2 vote) to adopt a new business model for solid waste in the City of Detroit and change the GDRRA mission and purpose. The new business model entails the transformation GDRRA to a materials recovery facility with comprehensive curbside recycling, and landfills to supplement this system. Has GDRRA studied this proposal? What is the GDRRA board's reaction to it?
15. Attached are GDRRA questions from the Environmental Task Force, chaired by Councilwoman JoAnn Watson.

IC:JGP

Attachments

**Greater Detroit Resource Recovery Authority
Operating Budget Request**

	2007-08 <u>Budget</u>	2008-09 Mayor's <u>Recommended</u>	<u>Inc/(Dec)</u>	% <u>Inc/(Dec)</u>
Expenses:				
Net Debt Service	\$ 52,093,906	\$ 57,177,656	\$ 5,083,750	9.76%
Net APC Debt Service	18,192,047	18,712,217	520,170	2.86%
Total Debt Service	70,285,953	75,889,873	5,603,920	7.97%
Less: 1996 A & B Bond Reserve	-	(26,000,000)	(26,000,000)	N/A
Debt Service after Use of Reserve	70,285,953	49,889,873	(20,396,080)	-29.02%
Labor and Plant Maintenance	19,662,461	21,056,977	1,394,516	7.09%
Contractual Services/Other Costs	3,586,618	3,840,991	254,373	7.09%
Sales Taxes and Add'l Oper. Reven	3,684,826	3,946,164	261,338	7.09%
Lime Addition	1,277,508	1,371,609	94,101	7.37%
Purchased Electricity	285,194	486,031	200,837	70.42%
Other Fuels	1,452,629	1,555,540	102,911	7.08%
Water	787,800	816,275	28,475	3.61%
Sewerage	1,562,030	2,053,503	491,473	31.46%
Electrical Intertie Maintenance	156,357	161,084	4,727	3.02%
Steamline Maintenance	848,720	1,022,975	174,255	20.53%
Insurance	1,565,460	1,612,785	47,325	3.02%
Supplemental Taxes	1,565,738	1,714,336	148,598	9.49%
Hauling and Disposal Costs	17,870,875	19,206,905	1,336,030	7.48%
Authority Administrative	3,376,416	4,323,267	946,851	28.04%
Escrow Fee (Authority)	1,113,204	1,113,204	-	0.00%
Deficit Reduction Contribution	-	-	-	N/A
TOTAL EXPENSES	\$ 129,081,789	\$ 114,171,519	(14,910,270)	-11.55%
Revenues:				
Steam Sales	\$ 30,984,446	28,143,004	(2,841,442)	-9.17%
Electricity Sales	12,368,106	11,829,838	(538,268)	-4.35%
Operators Energy Revenue	(6,382,883)	(5,935,927)	446,956	-7.00%
Investment Earnings	-	-	-	N/A
Private Hauler Fees	5,178,126	5,263,806	85,680	1.65%
Recovered Material	423,360	1,778,927	1,355,567	320.19%
DTE Escrow Fund	-	25,000,000	25,000,000	N/A
TOTAL REVENUES	\$ 42,571,155	\$ 66,079,648	23,508,493	55.22%
TIPPING FEE	\$ 86,510,634	\$ 48,091,871	(38,418,763)	-44.41%

Unfunded Prior Year Deficit

\$ 7,531,327

City of Detroit 2008-2009 Budget Requests DPW and GDRRA

Questions re Proposed Budgets
April 24, 2008

DPW

1. What is the funding source for the DPW budget line item for Refuse Disposal? \$56,439,617 is budgeted, yet the Mayor has announced there will be no General Funds supporting waste disposal in this year's budget. All the \$300 property tax fees for waste collection appear to be budgeted for refuse collection.
2. A total of \$76,371,484 is budgeted from Solid Waste Residential Bulky Waste fees and Commercial fees for waste collection (\$74,164,084 residential fees and \$2,207,400 commercial fees). Is there documentation for this year's collection to show these fees can be collected? Are the commercial fees increased this year as the Mayor promised last year? Are any of the fees allocated for waste disposal (GDRRA)?
3. The \$56,439,617 DPW budget in for Refuse Disposal in the Mayor's budget request includes \$48,091,871 that GDRRA requested for next year's "tipping fees." What other disposal activity is included in the \$56 million Mayor's budget allocation? Will DPW and GDRRA use part of this allocation to initiate a major recycling, resource recovery program which could include initiation of a pilot curbside recycling project, a demonstration community drop-off center for recovered materials, or other measures to transition GDRRA to a waste recovery system? Are there other line items in the DPW budget that could be dedicated to this purpose?

GDRRA

1. The GDRRA Operating Budget Request line item budget asks for \$48,091,871 in "tipping fees" from the DPW budget. But elsewhere in the Mayor's budget request for GDRRA is \$57,177,617, the amount the GDRRA line item budget identifies as "Net Debt Service" for 2008-09. The Mayor's Revenue backup in the overall proposed City budget cites this amount as "Supplemental Fees (GDRRA)." What is the source of this funding? What is the source of the \$48,091,871 requested for "tipping fees"?
2. GDRRA's budget contains revenues of \$25 million from the DTE Escrow Fund. Can GDRRA document the availability of this fund for 2008-09? The DTE Escrow Fund is held by a third party to be released in 2016-2025 in annual increments, provided GDRRA produces the electricity contracted with DTE until 2025. How can it be available this fiscal year?
3. \$26 million in projected costs for GDRRA this year is subtracted from the GDRRA line item operating budget, reducing projected costs of \$140,171, 519. A 1996 A & B Bond Reserve is cited as the source of the \$26 million. Explain and document this reserve bond fund that has become available to GDRRA.
4. Private hauler fees currently average \$12 per ton, causing the City of Detroit to pay extraordinary costs to subsidize these private haulers whose trash makes up 53-54% of the wastes burned. Council is asking GDRRA to increase this fee to bring in funds that would lessen the City's burden. GDRRA should propose increased fees for the coming fiscal year.
5. GDRRA is proposing an increase in sales from recovered material at three times last year's rates. Justify the projected increase.
6. A footnote to the line item GDRRA operating budget notes an "unfounded prior year deficit" of \$7,531,198. What is GDRRA's plan to make up this deficit? Where is it budgeted and what funds are allocated?
7. What part of GDRRA's proposed line item budget can be used to initiate a major recycling, resource recovery program this year, which could include initiation of a pilot curbside recycling project, a demonstration community drop-off center for recovered materials, or other measures to transition GDRRA

to a waste recovery system? Are there other line items in the DPW "tipping fee" that could be dedicated to this purpose?